

Draft

MINUTES OF MEETING
STATE OF WISCONSIN
DEFERRED COMPENSATION BOARD

Tuesday, November 8, 2001

Department of Employee Trust Funds Building
801 W. Badger Rd., Conference Room GB
Madison, Wisconsin

BOARD PRESENT: Edward Main, Chair
Peter Ullrich, Vice-Chair
Martin Beil, Secretary
John Nelson

BOARD NOT PRESENT: J. Jean Rogers

PARTICIPATING STAFF: Dave Mills, Deputy Secretary
Dave Stella, Administrator, Division of Retirement Services
Mary Willett, Director, Deferred Compensation Program
Janet Klosterman, Board Coordinator

OTHERS PRESENT: Mike Cullen, Federated Investors
Charlotte Gibson, Department of Justice
Jane Hamblen, Department of Justice
Pam Henning, Director, Legislation and Planning
Dave Hinrichs, Executive Assistant
Jim Keagy, Barclays Global Investors
Lance Kesterson, National Retirement Solutions
Jon Kranz, Department of Administration
Holly Lemerond, Barclays Global Investors
Duane Meek, Nationwide Retirement Solutions
Sue Oelke, Nationwide Retirement Solutions
Mike Studebaker, Nationwide Retirement Solutions
Karl Tourville, Galliard Capital Management, Inc.

Edward Main, Chair, called the meeting to order at 3:05 p.m.

Consideration of Minutes of Previous Meetings

MOTION: Mr. Beil moved acceptance of the amended minutes of the November 16, 2000 meeting and the minutes of the May 15, 2001 and July 5, 2001 meetings as submitted by the Board Coordinator. Mr. Ullrich seconded the motion, which passed without objection on a voice.

Proposed Meeting Dates for 2002

The 2002 Board meetings will be held on February 8 (*if needed*), May 14 and November 12, in Conference Room GB of the Department of Employee Trust Funds Building, 801 West Badger Road, Madison. The meetings will be held in the early afternoon.

Stable Value Fund Management Contract with Galliard Capital Management Inc.

Ms. Willett presented an amendment to the contract with Galliard Capital Management to allow additional sub-advisors to be used in management of the stable value fund

portfolio. She noted that this change was requested to provide the manager (Galliard) more discretion to alter the sub-advisor arrangements as market conditions and changes to existing companies offering sub-advisor services may warrant. Contractual changes that require Board approval before proceeding for these services could cause delays that are detrimental to the overall fund performance.

Ms. Willett noted that this proposal was presented to the Investment Committee members at their October meeting and they recommend that the Board consider and approve the following:

- Amend the contract with Galliard Capital Management to allow up to four sub-advisors (currently there are two) to be used for management of the stable value funds. Galliard will be required to provide justification for adding or replacing sub-advisors and the Investment Committee, based on recommendations from the Department, must give approval for this action.
- Amend the contract with Galliard to be an open-ended term that can be cancelled at anytime with a 120-day notice in consideration of an investment management fee reduction. This makes this agreement consistent with all other WDC investment provider contracts.
- Amend the investment guidelines for the stable value fund to provide more discretion to Galliard, as portfolio manager, to hold a larger portion of the assets in cash as may be prudent in consideration of volatile market conditions.

MOTION: Mr. Beil moved to: 1) approve the Investment Committee and staff's proposed amendment to provide an open-ended contract with Galliard Capital Management, Inc. as manager of the stable value fund and limit sub-advisor agreements to no more than four; 2) delegate authority to the Department staff, with approval from the Investment Committee, to approve actions to add or replace sub-advisors for the stable value fund based on recommendations from Galliard Capital Management, Inc.; and, 3) approve the recommended changes to the stated Investment Guidelines for the stable value fund to allow more discretion to the investment manager to hold a larger portion of the fund's assets in cash as may be prudent in consideration of market conditions. Mr. Ullrich seconded the motion, which passed without objection on a voice vote.

MOTION: Mr. Nelson moved to delegate authority to the Board Chair to sign routine or administrative amendments with investment providers that do not have a material impact on the investments or plan administration. Mr. Beil seconded the motion, which passed without objection on a voice vote.

Plan Expenses and Revenues

Ms. Willett reported on the status of the plan expenses and revenues and the analysis that Bob Willett completed on participant fees. She recommended that because of the current market conditions and the uncertainties of the direction that participants will take with future investments that can impact mutual fund provider revenues, participant fees should remain unchanged at this time. She noted that an additional analysis and possible recommendation for fee changes would be presented at the May meeting. The Board concurred with this recommendation.

Wisconsin Plan and Trust Document

Ms. Willett presented an amendment to the Plan and Trust Document to address changes to Section 457 resulting from the federal legislation (Economic Growth and Tax Reconciliation Relief Act of 2001) and the recent State budget bill (2001 Wisconsin Act 16). The changes were discussed and Board members asked how they would be communicated to participants. Ms. Willett explained that participants had already been informed about the pension legislation in the prior quarter's newsletter and additional information was placed on the Plan's Web site.

MOTION: Mr. Beil moved to approve the amendments to the Wisconsin Plan and Trust Document, as presented, to address the changes resulting from the Economic Growth and Tax Reconciliation Relief Act of 2001, Wisconsin Act 16 and other miscellaneous changes. Mr. Ullrich seconded the motion, which passed without objection on a voice vote.

Miscellaneous

- Deputy Secretary Mills announced that Dave Stella would be leaving the Department of Employee Trust Funds in December to become the new Executive Director of the Denver Public Schools Retirement System. He noted that while he is sorry to see Dave leave the Department of Employee Trust Funds and the State of Wisconsin, he is happy that he has the opportunity to serve as Executive Director of a Retirement System. He further noted that Dave is an excellent administrator and good friend and will be greatly missed.

Mr. Mills thanked Mr. Stella for his contributions to the Wisconsin Retirement System on behalf of himself, the Department and the public employees and annuitants in the State of Wisconsin.

Mr. Mills went on to report that Julie Reneau would be the new Administrator of the Division of Retirement Services. He added that he expects a smooth transition because Ms. Reneau is also an excellent Administrator and has been involved in WRS and benefit policy since joining the Department in 1984. She has served as Chief of the Benefit Information Section; Director of the Benefits Bureau; and, in 1994 was promoted to Director of the Office of Communications, where she has successfully implemented many initiatives for improving our customer service.

Mr. Mills noted that the Call Center staff is being relocated to the Retirement Services Division and a new Office of Strategic Services has been created. The new office will be responsible for legislative services, communications, policy and budget, strategic planning, federal compliance and oversight of the Deferred Compensation Program.

The new Office of Strategic Services will report to the Department's Executive Assistant, Dave Hinrichs. Mary Willett's position will be moved to the new office. She will continue to serve as the Department's primary resource for federal compliance issues and continue to oversee the Deferred Compensation.

- Ms. Willett presented and discussed the following: 1) information from fund providers relative to their performance after the September 11 terrorism attacks; 2) routine reports on hardships; 3) plan assets and participation status; and 4) participant communications.

- Ms. Willett also noted that the assets in the Vanguard Wellington Fund and Vanguard Long-term Corporate Bond Fund were transferred into the Admiral series of these two options on October 29, 2001.

Administrative Services Contract Provider - Nationwide Retirement Solutions

Ms. Willett presented information to the Board about the recent performance of Nationwide Retirement Solutions (NRS) and the error situations that have occurred.

Ms. Willett reported that staff recommends delaying the extension of the current agreement with NRS through the end of 2005, approved at the June conference call meeting of the Board, until the error situations have been resolved and a final compliance audit report is issued that confirms the corrections have been properly administered.

Duane Meek and Lance Kesterson presented information to the Board regarding internal changes that were occurring at NRS to ensure the error situations are not repeated. Information presented by NRS, entitled "Operation Restore Confidence" demonstrated that NRS is taking several steps to rectify the administrative problems that have been occurring and their commitment to this effort. Ms. Willett reported that they have been very cooperative in all aspects of error resolution and have taken the appropriate steps to ensure participants are made whole (or better than whole in some situations) because of the NRS error(s).

Ms. Willett noted that the compliance audit, which was contracted and paid for by NRS, with the audit scope being directed by Department staff, was completed and that the preliminary report had not identified any areas where the errors were not appropriately resolved. She added that once the final audit report was issued, and assuming there were no findings, they would present the contract amendment to the Board chair for signature, as approved by the Board at the prior meeting.

Ms. Willett also reported that staff recommends that the audit firm of KPMG be contracted to perform the routine contract compliance audit of NRS as administrative services provider with an expected expenditure from the Plan's administrative expense account of up to \$35,000.

MOTION: Mr. Beil moved to approve staff's recommendation to: 1) secure the services of KPMG for the routine contract compliance audit of NRS as the administrative services provider of the Wisconsin Deferred Compensation Program and authorize the Chair to sign the letters of agreement and final contracts with KPMG to perform such audits, and 2) approve expenditure of administrative expense account funds, up to \$35,000, for KPMG services for the routine audit of the calendar years 1999 and 2000. Mr. Ullrich seconded the motion, which passed without objection on a voice vote.

Ms. Willett announced the NDC offices would be moving to 902 Ann St., which is across the street from the DETF Building and in a building where the Division of Insurance Services and Office of Internal Audit will also be located.

Motion to Convene in Closed Session

Mr. Main announced that the Deferred Compensation Board would convene in closed session pursuant to the exemptions contained in Wis. Stats. §19.85 (1) (a), for quasi-

judicial deliberations. Attorney Hamblen, Attorney Gibson and Ms. Klosterman were invited to remain during the closed session deliberations.

MOTION: Mr. Beil moved to convene in closed session pursuant to the exemptions contained in Wis. Stats. §19.85 (1) (a). Mr. Ullrich seconded the motion, which passed, without objection on the following roll call vote:

MEMBERS VOTING AYE: Beil, Main, Nelson and Ullrich

MEMBERS VOTING NAY: None

The Deferred Compensation Board convened in closed session at 3:59 p.m., and reconvened in open session at 4:12 p.m.

Announcement of Action Taken on Business Deliberated on During the Closed Session

Mr. Main announced that, while in closed session, the Board adopted the Hearing Examiner's Proposed Decision with amendments recommended by Counsel in the matter of administrative appeal #97-081-DC.

Miscellaneous

Mr. Stella closed the meeting by telling the Board members that he had enjoyed working with them and thanked them for the support they gave him personally and for their dedication to the Wisconsin Deferred Compensation Program.

Adjournment

MOTION: Mr. Ullrich moved adjournment. Mr. Beil seconded the motion, which passed without objection on a voice vote.

The Deferred Compensation Board adjourned at 4:15 p.m.

Date Approved: _____

Signed: _____
Secretary